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SUBJECT: MORE UKRAINE BUDGET DRAMA

REF: KYIV 1982, KYIV 1920

KYIV 00002057 001.2 OF 002

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**¶11.** (SBU) Summary. After weeks of dithering, Ukraine's parliamentary budget committee approved hundreds of proposed amendments, only to see the draft 2010 budget get voted down in the Rada (Ukraine's parliament) on a floor vote. This orchestrated maneuver, designed to further delay the review process, may ensure that the 2010 budget is not passed before the presidential election.

The Ministry of Finance has agreed to rewrite the draft budget, but it will not comply with a Rada resolution to tabulate increases for social spending. The Party of Regions will try to prevent Prime Minister Tymoshenko from gaining extraordinary discretionary spending authority, over and above what her government would already possess in a continuing resolution-type scenario. End summary.

BUDGET COMMITTEE APPROVES AMENDMENTS, BUT...

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**¶12.** (SBU) Against the expectations of senior committee members (Ref A), the Rada budget committee voted on November 19 to present an amended 2010 draft budget to the full parliament for a floor vote. In any typical year, this committee vote would have been a mere formality, necessary prior to a first reading in the parliament and adoption of the committee's recommendations.

...THE RADA VOTES AGAINST THEIR ADOPTION

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**¶13.** (SBU) On November 20, however, the Rada voted against the budget committee's proposals. Embassy sources indicated that the procedure had been entirely orchestrated within the committee and on the Rada floor by leading factions, united (for conflicting reasons) in their desire to see the current draft 2010 budget fail (Ref A).

**¶14.** (SBU) Although Tymoshenko's government drafted the budget, her BYuT faction is now against it for two reasons: 1) the IMF has said the draft budget contains an unsustainable 8% deficit, and 2) the lack of a budget would give Tymoshenko more control over directing 2010 expenditures prior to the presidential election. The opposition Party of Regions does not support the draft budget because it lacks credible macroeconomic indicators, and because it is a sop to Tymoshenko-backed interests.

**¶15.** (SBU) As a result of the Rada rejecting the draft budget, one of its key amendments -- a provision to bring the 2010 budget in line with the recently approved social standards law -- was voted down. Observers said this was only a "technical 'no' vote", since the Party of Regions continues to support implementation of the social standards law (Ref B), which established a revised subsistence minimum and will likely lead to an increase in pension allocations

(with concomitant wage increases anticipated in 2010).

BUDGET BACK TO CABINET OF MINISTERS

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¶6. (SBU) The Rada also issued a resolution to send the draft 2010 budget back to the Cabinet of Ministers for revision. The Ministry of Finance now has two weeks to prepare a new draft budget. The Rada resolution instructs the Cabinet of Ministers to bring the budget in line with the Budget Code and the law on social standards.

It passed with support from the Party of Regions (171 votes), Our Ukraine (23), Communist Party (27), and the Lytvyn Bloc (19). Tymoshenko's BYuT faction did not vote.

CYNICAL FINANCE MINISTRY

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¶7. (SBU) Acting Minister of Finance Umanskiy responded by saying that his experts on fiscal policy would revise the budget. The Ministry would comply with the Rada instruction to finalize a new draft within two weeks, with the caveat that the Ministry could not abide by the Rada resolution to bring the 2010 budget in line with the social spending law, which Tymoshenko and her BYuT faction have opposed. Umanskiy reasoned that the Rada floor vote, striking down the budget committee's amendments (one of which had required implementation of the social standards law in the 2010 budget), had more legal force than the Rada resolution.

2010 SPENDING: AT WHAT LEVEL?

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¶8. (SBU) While most analysts expect that the Tymoshenko government will enter 2010 without a Rada-approved budget, triggering a continuing resolution-type scenario, there are no clear guidelines for how additional or extraordinary spending allocations would be

KYIV 00002057 002.2 OF 002

made. According to the Budget Code, if the 2010 budget is not approved, GOU expenditures should be disbursed at 2009 levels.

¶9. (SBU) Tymoshenko has sought to get around restrictions on additional expenditures, such as for the presidential election or other discretionary items, through an October 29 Cabinet of Ministers resolution (#1181). The resolution, which will enter into force if the 2010 budget is not passed, would allow the state treasury to fund articles not envisioned in 2009, despite the fact that budget watchers believe such a provision would violate the Budget Code.

¶10. (SBU) Both the Party of Regions and President Yushchenko have stated that they oppose resolution 1181. On November 18, Party of Regions MPs challenged the resolution in the Constitutional Court, a move that the IMF had told us was inevitable. If the 2010 budget is not adopted, and if the October 29 resolution is struck down by the Constitutional Court, the GOU would need to find a new mechanism to finance the presidential election. A separate law likely would be required to cover the projected UAH 969 million (\$120 million) needed for election-related expenditures.

COMMENT

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¶11. (SBU) More fiscal theatrics have not changed the bottom line: the Rada is unlikely to pass a 2010 budget before the presidential election. After the Cabinet of Ministers makes its revisions, the draft budget will go again to the budget committee for new amendments, and finally to the full Rada for a repeat first reading.

The absence of a 2010 budget is seen as beneficial by all the major political forces, despite the possible need to pass separate legislation to finance the 2010 election.

¶12. (SBU) Tymoshenko's attempt to secure further control over 2010 expenditures (beyond what she would have with a continuing resolution-type scenario) and boost her power to make discretionary payments is bold. But, it was predictable that she would encounter a challenge from the Party of Regions and President Yushchenko over

her Cabinet resolution. The outcome of a legal ruling on Resolution 1181 is still unclear, however.

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